

May 03, 2005



# Acquisition

## DoD Purchase Card Convenience Checks (D-2005-055)

Department of Defense  
Office of Inspector General

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### **Acronyms**

|      |   |
|------|---|
| DFAS | Defense Finance and Accounting Service            |
| FMR  | Financial Management Regulation                   |
| GAO  | Government Accountability Office                  |
| GSA  | General Services Administration                   |
| IG   | Inspector General                                 |
| IRS  | Internal Revenue Service                          |
| PMO  | DoD Joint Purchase Card Program Management Office |



INSPECTOR GENERAL  
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400 ARMY NAVY DRIVE  
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May 03, 2005

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
DIRECTOR, DOD JOINT PURCHASE CARD PROGRAM  
MANAGEMENT OFFICE  
PRESIDENT, UNIFORMED SERVICES UNIVERSITY OF  
HEALTH SCIENCES  
DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Report on DoD Purchase Card Convenience Checks (Report No. D-2005-055)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Director, Defense Procurement and Acquisition Policy comments were partially responsive. We request the Director, Defense Procurement and Acquisition Policy provide comments on Recommendation A.1.a. by July 1, 2005.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to [AudCM@dodig.osd.mil](mailto:AudCM@dodig.osd.mil). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Deborah L. Carros at (703) 604-9217 (DSN 664-9217) or Ms. Beth K. Schaefer at (703) 604-9232 (DSN 664-9232). For the report distribution, see Appendix D. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Richard B. Jolliffe", is positioned above the printed name.

Richard B. Jolliffe  
Acting Director  
for Contract Management

## Office of the Inspector General of the Department of Defense

Report No. D-2005-055

May 03, 2005

(Project No. D2003-D000CK-0126)

### DoD Purchase Card Convenience Checks

#### Executive Summary

**Who Should Read This Report and Why?** Policy makers, senior managers, purchase card program managers, approving officials, cardholders, and convenience check writers should read this report to help identify potential problem areas with convenience checks in their purchase card programs. This report identifies weaknesses in the controls over convenience checks resulting in the improper use of convenience checks. After reading this report, managers will be able to better assess the area of convenience checks within their programs and implement the appropriate recommendations to strengthen their programs.

**Background.** This audit report is one in a series of reports that documents satisfaction of the requirements in section 1007 of the FY 2003 National Defense Authorization Act that the Department of Defense Inspector General perform periodic audits of purchase card usage. The Government-wide commercial purchase card program was created to provide an efficient means for Government agencies to purchase goods and services directly from vendors. In FY 2003, \$7.1 billion in goods and services was purchased using the purchase card program. During the first 6 months of FY 2003, about \$34 million in goods and services was purchased using convenience checks.

**Results.** Convenience check accounts under the purchase card program were not properly established or monitored. Specifically, appointment letters either did not exist or were not sufficient to identify the check writer's responsibilities or accountability. Check writers made inappropriate payments with convenience checks. These inappropriate payments included checks being written over the authorized \$2,500 limit, payments split over several checks to avoid going over the authorized limit, recurring payments to vendors, payments to vendors on contract, and the use of the convenience check when the vendor accepted charge cards. As a result, inappropriate use of convenience checks cost the Department about \$40,381 in check fees; checks were written as an exchange for cash; and checks were written over the \$2,500 limit established by the DoD Financial Management Regulation. Additionally, individuals and organizations paid by convenience check may not have considered the items as income since they did not receive Internal Revenue Service Forms 1099-Miscellaneous Income.

**Management Comments and Audit Response.** The Interim President, Uniformed Services University of the Health Sciences, and the Acting Director, Defense Commissary Agency commented on the finding. The Interim President concurred with the findings, but requested revision to the finding results. We agreed with the Interim President's comments and revised the finding results. The Acting Director, Defense Commissary Agency did not concur with the finding and stated the Defense Commissary Agency saved the Government money by using the convenience check as a payment vehicle against contracts. We disagreed that the audit report claimed potential monetary benefits. The audit report states the Defense Commissary Agency cost the Government \$3,251 in check fees by using the convenience check instead of a purchase card.

The Director, Defense Procurement and Acquisition Policy; the Interim President, Uniformed Services University of the Health Sciences; and the Acting Director, Defense Commissary Agency, generally concurred with the recommendations. However, the Director, Defense Procurement and Acquisition Policy did not concur with amending the purchase card task orders with the banks to state that convenience checks not written in accordance with the Department of Defense Financial Management Regulations will not be honored. The Director, Defense Procurement and Acquisition Policy is taking appropriate actions in response to this recommendation by recognizing inappropriate use of checks written over \$2,500 and issuing a policy memorandum to correct the inappropriate use. Therefore, the comments were responsive and no additional comments are required. Additionally, the Director, Defense Procurement and Acquisition Policy did not comment on reissuing guidance requiring appointment letters with an acknowledgement that the individual understands the responsibilities and liabilities. We request that the Director, Defense Procurement and Acquisition Policy provide comments to this recommendation by July 1, 2005. (See the Finding section of the report for a discussion of management comments and the Management Comments section for the complete text of comments.)

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## Background

Section 1007, “Improvements in Purchase Card Management,” of the National Defense Authorization Act for Fiscal Year 2003 (Public Law 107-314, December 2, 2002), states:

That the Inspector General of the Department of Defense . . . perform periodic audits to identify—

(A) potentially fraudulent, improper, and abusive uses of purchase cards;

(B) any patterns of improper cardholder transactions, such as purchases of prohibited items; and

(C) categories of purchases that should be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices.

**Federal Purchase Card Program.** The first Government-wide purchase card contract was awarded by the General Services Administration (GSA) in 1989. DoD entered the program at that time. On October 13, 1994, the President issued Executive Order 12931 mandating increased use of purchase cards for micro-purchases (purchases under \$2,500). The purchase card can be used to pay for goods and services up to a predetermined limit and for payments against contracts. GSA reports that the Government saves approximately \$1.3 billion annually in administrative costs by using purchase cards.

**DoD Joint Purchase Card Program Management Office.** The Deputy Secretary of Defense established the DoD Joint Purchase Card Program Management Office (PMO) in March 1998. The PMO reports directly to the Director, Defense Procurement and Acquisition Policy within the office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. Finance and accounting issues are coordinated with the Under Secretary of Defense (Comptroller)/Chief Financial Officer.

**How the DoD Program Works.** DoD organizations are responsible for distributing cards, training employees, and day-to-day management of the purchase card program. Each participating organization designates an office to manage the program and ensure training is provided, to maintain a current list of cardholders and approving officials, and to ensure annual oversight is performed.

DoD appointed agency program coordinators with the responsibility for program management at the installation, major command, and Component levels. Agency program coordinators issue purchase cards, establish limits on spending, and monitor use of a purchase card account. Also, DoD employees are assigned as “approving officials” to authorize and approve purchases for payment. Once a cardholder makes an authorized purchase, the cardholder and the approving official reconcile the purchased goods and services with the bank statement prior to the approving official requesting payment by the Defense Finance and Accounting Service (DFAS).

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**Convenience Checks.** The DoD Financial Management Regulation (FMR) states that the desired method for making all payments within the United States is by electronic transfer of funds. When electronic transfers of funds are not practical, the FMR permits the use of purchase cards. If a business refuses to accept the purchase card or if use of the card is impractical, DoD may use a convenience check. Convenience checks are third party drafts provided through the GSA contract as part of the purchase card program. Convenience checks may be issued to acquire and pay for supplies, services, or construction when vendors do not accept the Government purchase card. The checks offer DoD activities mechanisms to replace cash for official expenses when purchase cards and other alternatives have been determined unusable. To establish a checking account, the agency program coordinator creates a purchase card account with the convenience check option. Checks are then ordered with the check writer's name, billing address, and the statement "Not valid over \$2,500" printed on the checks. Each time a check is processed by the bank, the activity is charged 1.7 percent of the face value of the check as a processing fee.

## Objectives

Our overall audit objective was to evaluate whether controls over and use of purchase card convenience checks were effective and appropriate. We also reviewed the management control program as it related to the overall objective. See Appendix A for a discussion of the scope and methodology, review of the management control program, and prior audit coverage. See Appendix B for the specific scope of review at each location, and Appendix C for a list of problems found at each location.

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## Convenience Checks

Convenience check accounts under the purchase card program were not properly established or monitored. Specifically:

- Appointment letters either did not exist or were not sufficient to hold check writers accountable.
- Check writers made inappropriate payments with convenience checks. These inappropriate payments included checks exceeding the \$2,500 limit, splitting payments to avoid exceeding authorized limits, recurring payments to vendors, payments to vendors on contract, and paying vendors who accepted charge cards. Additionally, other inappropriate payments were made for printing services and entertainment.
- Information was not reported on Internal Revenue Service Form (IRS) 1099-Miscellaneous Income.

These conditions occurred because:

- Check writer appointment letters did not specify check writer duties, establish dollar limitations for checks, or contain an acknowledgement of those duties and responsibilities.
- Checks were written when different payment methods were available. Check writers had single purchase limits below the \$2,500 micro-purchase limit. Additionally, check writers were not properly monitored to ensure that checks were used properly and did not exceed established limits.
- Activities either did not capture IRS Form 1099-Miscellaneous Income data or did not know how to report the data.

As a result, the inappropriate use of convenience checks cost the Department about \$40,381 in check fees, checks were written as an exchange for cash, and checks were written over the \$2,500 limit established by the DoD FMR. Additionally, individuals and organizations paid by convenience check may not have considered the payments as income since they did not receive IRS Forms 1099-Miscellaneous Income.

## Appointment Letters

Appointment letters either did not exist or were not sufficient to hold check writers accountable. Only 10 of the 21 check writers interviewed were able to provide copies of their convenience check appointment letters. The appointment letters specified check writer duties, established dollar limitations for checks, and contained an acknowledgement of those duties and responsibilities. However, only 7 of the 10 individuals who were appointed in writing as check writers

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acknowledged the appointment. The other 11 check writers either did not have appointment letters or had insufficient appointment letters. Without appropriate appointment letters, Comptroller General Decision B-280764, issued May 4, 2000, states that individuals cannot be held pecuniary liable for inappropriate payments. The PMO should reissue guidance requiring adequate appointment letters with an acknowledgement that the individual understands the responsibilities and liabilities for inappropriate use of the convenience checks.

## Inappropriate Payments

Check writers inappropriately used convenience checks to make payments. These inappropriate uses included checks being written over the authorized \$2,500 limit; payments split over several checks to avoid going over the authorized limit; recurring payments to vendors; payments to vendors on contract; and the use of convenience checks when the vendor accepted charge cards. Additionally, other inappropriate payments were made for printing services and entertainment. See Appendix C for the list of activities visited and the problems found at each site.

**Checks Over \$2,500.** There were 58 convenience checks totaling about \$211,200 written from October 1, 2002, through May 29, 2003, for amounts greater than the authorized \$2,500 limit. Using data mining techniques, we identified 58 convenience checks written in excess of \$2,500 by DoD organizations, as shown below.

| <b>Convenience Checks<br/>October 1, 2002, through May 29, 2003</b> |   |  |  |
|---|---|--|--|
| <b>Service</b>  | <b>Total Number<br/>of Checks<br/>Written</b> | <b>Number of<br/>Checks Over<br/>\$2,500</b> | <b>Dollar Value of<br/>Checks Over<br/>\$2,500</b> |
| Army  | 34,246  | 18   | \$23,979   |
| Navy  | 7,895   | 7  | 51,405   |
| Air Force   | 17,964  | 30   | 125,322  |
| DoD Agencies  | 4,408   | 3  | 10,493   |
| <b>Total</b>  | <b>64,513</b>                                 | <b>58</b>                                    | <b>\$211,199</b>                                   |

Although the percentage of checks written for amounts greater than \$2,500 was not significant when compared with the total number of checks written, the DoD FMR prohibits writing checks for more than \$2,500. We addressed this issue in DoD Inspector General (IG) Report No. D-2002-075, "Controls Over the DoD Purchase Card Program," March 29, 2002. At that time we recommended that the PMO have the banks return the checks for insufficient funds instead of honoring

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them. The PMO nonconcurred and stated that the purchase card program makes use of standard commercial convenience check platforms, processes, and business rules. The PMO should renegotiate the task order and require the banks to return checks unpaid if written over the allowed amount.

The PMO conducted reviews on convenience checks issued for amounts greater than \$2,500 and sent the results semiannually to each of the Services and other Defense organizations. Also, the PMO required all organizations to conduct an audit and to cancel checking accounts that violated the DoD FMR limitation of \$2,500 per check. The PMO reviewed convenience checks issued from October 2002 through April 2003. The review identified 36 convenience checks issued totaling \$171,648 that exceeded the \$2,500 limit. In addition, the PMO review of checks issued from May 2003 through October 2003 identified 32 checks totaling \$129,681 that exceeded the \$2,500 limit. The PMO review of checks written from November 2003 through April 2004, identified 36 checks totaling \$236,982 that exceeded the \$2,500 limit.

**Split Payments.** Payments made to vendors were split over several checks in order to avoid going over the \$2,500 check limit, or the check writer's individual purchase limit. At the 9 activities visited, check writing personnel wrote 3,522 checks from October 1, 2002, through May 29, 2003. Of the 3,522 checks reviewed, 457 checks were split payments to make payments over the \$2,500 limit. We found split payments at four of the nine activities visited. For example, at the Defense Commissary Agency, two convenience check writers each wrote a check for \$2,500 to make a \$5,000 payment to a neurological doctor for deposition services. The Defense Commissary Agency Support Services Branch Chief stated the doctor did not accept the purchase card and directed two check writers to write the checks in order to avoid exceeding the \$2,500 check limit. At the 8<sup>th</sup> Marine Corps Recruiting District, check writing personnel wrote two checks for flight training totaling about \$3,406.

At the Marine Recruiting Center-Lansing, an additional 34 checks were written to pay for 16 transactions totaling about \$21,786 because the check writer had a limit less than the micro-purchase limit. For example, one check writer had a \$1,000 limit. In order to pay invoices over the authorized \$1,000 limit, several checks were written. One invoice for \$1,707 was split into 3 checks to prevent the check writer from exceeding the \$1,000 limit.

At the Uniformed Services University of Health Sciences, four checks were written to an individual on January 16, 2003, as an exchange for cash. The individual was given check numbers 9148 through 9151, totaling \$2,400. The explanation given was that the individual cashed the checks to purchase supplies needed for Bushmaster training. (Bushmaster training is a weeklong practical field laboratory exercise that occurs during the last week of the Military Contingency Medicine course.) Items for this event were purchased from home improvement stores, discount stores, club stores, office supply stores, a pharmacy, and the Post Exchange, most of which accepted charge cards. Not only is this a violation of the DoD FMR, the items purchased included potentially personal items such as over-the-counter medications, office supplies, phone cords, kerosene, light bulbs, a video cassette recorder, blank video tapes, a mouse, a printer, an easel, oil, trash bags, power cords, power strips, coffee, light bulbs,

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and other various household-type items totaling \$1,801. The individual wrote a check to the U.S. Treasury to repay the unused money. University Management confirmed the individual returned the funds to the U.S. Treasury and the U.S. Treasury disbursed the funds to the University's account. The activity incurred about \$41 in check fees and spent \$1,801 on potentially personal items by issuing the checks as an exchange for cash. The President of the Uniformed Services University of Health Sciences should initiate an investigation of the above transactions and take appropriate actions against the check writer and the individual receiving the checks.

**Recurring and Contract Payments.** Inappropriate recurring and contract payments were made with the convenience check. Recurring payments were made to vendors and individuals without contracts, as well as to vendors with contracts.

**Recurring Payments.** Recurring monthly payments were made to vendors and individuals for supplies and services. We reviewed 3,522 transactions for 23 check writers at the 9 locations. We found that 1,006 of the 3,522 checks totaling \$694,719 were written to vendors and individuals on a recurring basis. For example, at the Air Force Band, 1 check writer wrote 43 checks over a 12-month period totaling about \$31,000 to 1 vendor for the Band's tailoring needs. At the Marine Recruiting Center-Lansing, 1 check writer issued 22 checks totaling about \$15,800 to a utility company.

Using data mining techniques, we mined convenience check data for the Department for the period from October 1, 2002, through May 29, 2003, to determine if recurring monthly payments were being made Department-wide. We found recurring convenience check payments to utility companies, and to cities, states, and county organizations. For example, we determined that 432 checks valued at about \$149,000 were written to cities, states, and county organizations. Additionally, we determined that 497 checks totaling about \$210,000 were written to utility companies, of which 418 checks totaling about \$149,000 were for telephone service. We also identified 104 checks totaling about \$37,800 that were written to warehouse clubs that require memberships. The dollar value of these checks ranged from \$19.94 to \$2,499.50. We identified 27 checks totaling about \$11,000 that were written to grocery stores. We also determined that 57 checks totaling about \$15,000 were written to charitable organizations.

Purchases at some of these vendors could be potential misuse of the convenience checks, and an inappropriate use of Government funds. The PMO should require agency program coordinators to identify recurring payments during the annual reviews, and take appropriate actions to prevent future use of convenience checks to make recurring payments.

**Payments to Vendors on Contracts.** Convenience checks were used to make payments to vendors on contracts instead of using the purchase card as indicated on the contract, or making payment by other means. We reviewed transactions for 23 of the check writers at the 9 locations reviewed, and found that 252 of the checks were written as payments on contracts. All of the checks written as payments on contracts were at the Defense Commissary Agency. Six of the eight Defense Commissary Agency check writers wrote checks as

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payments on contracts. The contracts indicated that payment was to be made via the purchase card or by DFAS. However, the check writers made payments totaling \$191,206 with convenience checks instead of the payment methods specified in the contract. The Director, Defense Commissary Agency should ensure that convenience checks are issued in compliance with the DoD FMR, and that the payment method indicated in the contract is used.

**Use of Convenience Checks at Businesses That Accepted Charge Cards.**

Convenience checks were inappropriately used at businesses that accepted the purchase card. According to the DoD FMR, convenience checks can be used as an alternative to cash for paying official expenses of DoD organizations that previously used imprest funds.\* Convenience checks should be used only after purchase cards are determined to be unusable.

Using data mining techniques, we determined that from October 1, 2002, through May 29, 2003, 1,423 convenience checks totaling about \$571,247 were written to businesses that accepted purchase cards. The businesses that accepted charge cards included companies such as Federal Express, the United Parcel Service, and the Washington Post. For example, 746 checks totaling \$292,833 were written to Federal Express. An additional 126 checks totaling about \$27,600 were written to the United Parcel Service.

Use of convenience checks at businesses that accepted charge cards was identified during our site visits. For example, at the 8<sup>th</sup> Marine Corps Recruiting District, we found checks totaling \$3,080 written to four vendors that accepted charge cards. At the Uniformed Services University of Health Sciences, we found checks written to 11 vendors that accepted the charge card. According to the Interim President, Uniformed Service University of the Health Sciences, the University has discontinued the practice of writing convenience checks to vendors that accept the Government charge card. Additionally, University contracting procedures have been altered to make maximum and appropriate use of the Government Purchase Card.

The PMO should identify potentially inappropriately written convenience checks such as those written to individuals or to businesses that accept charge cards, or split into multiple checks potentially to avoid the \$2,500 limit. The PMO should require agency program coordinators to research the transactions, and to take appropriate actions to correct improper uses of the checks. The PMO should also follow up with agency program coordinators to ensure appropriate corrective actions are performed. The PMO needs to periodically research checks written to these types of vendors to ensure that purchase cards were determined unusable.

**Other Inappropriate Check Usage.** Other inappropriate use of checks occurred at the 8<sup>th</sup> Marine Corps Recruiting District. Checks were used to pay for printing services instead of using the Defense Automated Printing Service. Additionally, in FY 2002, check writers at the 8<sup>th</sup> Marine Corps Recruiting District wrote checks over \$2,500 to Sentry Telecom for about \$23,467 to purchase a phone system and to the San Antonio Spurs for \$2,740 for advertising. However, the

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\* Imprest funds were authorized to make small purchases (not exceeding \$500) of supplies or services on an "imprest basis." An "imprest basis" means that the amount of the fund was to remain constant.

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Spurs organization invoice showed only a charge for game tickets, broken out by cost level, ranging in price from \$22.50 to \$49.50. Although the 8<sup>th</sup> Marine Corps Recruiting District was aware that unauthorized individuals received and used the tickets, records were not maintained to show dispensation of the tickets. The U.S. Marine Corps Headquarters Office of the General Counsel agreed that the purchase of tickets fell under the lines of entertainment and issued clarification policy. The policy clarification prohibited the purchase and acceptance of tickets with advertising in the U.S. Marine Corps Recruiting Command.

## **Form 1099 Data**

IRS Form 1099-Miscellaneous Income information was not reported. Check writers are required to obtain IRS Form 1099-Miscellaneous Income data from individuals and companies they write checks to, on behalf of the Government. Vendors and individuals who receive an aggregate \$600 through convenience checks should receive an IRS Form 1099-Miscellaneous Income indicating the amount of payments received during the tax year. Check writers are supposed to capture the appropriate data and transmit the data to DFAS, which in turn reports the information to the IRS. Check writers at eight of the nine locations visited did not report IRS Form 1099-Miscellaneous Income data. We interviewed 16 of the 23 check writers and discovered that 9 of the 16 check writers did not report the IRS Form 1099-Miscellaneous Income data. See Appendix C for the list of activities visited and problems found. Without accurate reporting, individuals and vendors may not have considered all of their income when filing their taxes.

## **Oversight of Convenience Checks**

Problems existed with the use of convenience checks because of a lack of proper oversight to ensure that convenience checks were properly established and used appropriately. Specifically:

- Check writer appointment letters either did not exist, or did not contain an acknowledgement of check writer duties and responsibilities.
- Checks were written when a different payment method should have been used.
- Some check writers had single purchase limits less than the micro-purchase limit of \$2,500.
- Activities either did not capture IRS Form 1099 data or captured the data and did not know how to report the data.

## **Costs of Checks**

Checks written instead of using the appropriate payment method cost the Department an additional \$40,381 in check fees. If this trend is allowed to

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continue, over the next 5 years, the Department will spend about \$202,205 on unnecessary check fees. Additionally, since the check writers did not report IRS Forms 1099–Miscellaneous Income data, it is undeterminable how much money in income taxes was lost since individuals and organizations paid by convenience checks may not have considered the items as income since no IRS Forms 1099–Miscellaneous Income would have been received.

## Check Fees

Checks written instead of using the appropriate payment method cost the Department an additional \$40,381 in check fees. Specifically, convenience checks were issued inappropriately over the \$2,500 single micro-purchase threshold; issued as split payments against invoices exceeding the \$2,500 micro-purchase limit; used as payment vehicles for recurring services and against existing contracts; and written to vendors who accepted the government purchase card. Each convenience check written cost the Department a check fee of 1.7 percent of the face value of the check.

**Checks Over the Limit.** Convenience checks written over the limit of \$2,500 cost the Department \$9,151 in check fees. The PMO identified 104 checks totaling \$538,311 written during the period from October 2002 through April 2004. Using this data and multiplying the face value of the checks (\$538,311) by the 1.7 percent processing fee, we determined that this resulted in the Department paying \$9,151 in check fees. Had the Department used another method of payment, it would not have had to pay \$9,151 in check fees.

**Split Payments.** Payments split into multiple checks to pay transactions that were over \$2,500 cost the Department about \$6,417 in check fees. At 5 of the 9 locations visited, check writers issued 491 checks from October 1, 2002, through September 30, 2003, as split payments against transactions totaling \$377,483 that exceeded the \$2,500 single purchase limit, or other locally imposed limit. Thus, multiplying \$377,483 (dollar value of split payments) by the 1.7 percent processing fee, the total equals about \$6,417 in check fees.

In addition, the four checks written for a total of \$2,400 at the Uniformed Services University of Health Sciences as an exchange for cash cost the Department about \$41 in check fees (\$2,400 times the 1.7 percent fee) in addition to the \$1,801 potentially spent on personal items. Thus split payments at the activities visited cost the Department about \$6,458.

**Recurring and Contract Payments.** Checks written on a recurring basis instead of issuing a contract and making payment through another method cost the department \$11,810 in check fees. At 6 of the 9 locations visited, 1,006 checks totaling \$694,719 were identified as recurring payments. Thus multiplying \$694,719 by the 1.7 percent processing fee, the cost of recurring payments is about \$11,810. Checks written as payments on contracts cost the Department about \$3,251 in check fees. At the Defense Commissary Agency, 252 payments against contracts totaling \$191,206 were identified. Multiplying the \$191,206 by the 1.7 percent processing fee, the contract payments made by convenience checks cost \$3,251 in check fees. The contracts paid with a convenience check either listed payment in the contract as the Government purchase card or DFAS.

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Thus checks written on a recurring basis or as a payment against a contract cost the Government a total of \$15,061 in unnecessary check fees.

**Businesses That Accepted Charge Cards.** Checks written to businesses that accepted charge cards cost the Department \$9,711 in check fees. Using data mining techniques, we determined that from October 1, 2002, through May 29, 2003, check writers throughout the Department issued 1,423 checks totaling \$571,247 to vendors that accepted purchase cards. This resulted in \$9,711 spent in unnecessary check fees (\$571,247 times 1.7 percent).

## **Other Costs**

At eight of the nine locations, we interviewed 16 check writers and found that 9 of the 16 check writers did not report IRS Form 1099-Miscellaneous Income data. Individuals and organizations paid by convenience check may not have considered the items as income since they did not receive an IRS Form 1099-Miscellaneous Income. As a result, it is undeterminable how much money the Government lost in income taxes.

## **Management Actions Taken**

In response to discussions during the audit, the PMO issued guidance on September 21, 2004, regarding convenience checks. The guidance reiterated the DoD FMR limitations on the use of convenience checks and stated that the bank would no longer honor convenience checks written over \$2,500. The guidance also stated that senior program offices would be closely monitoring convenience checks.

## **Conclusion**

While we believe that the actions taken by the PMO should eliminate checks over the \$2,500 limit, we believe the PMO needs to continue to be proactive if the use of convenience checks under the Purchase Card Program is to be effectively managed. The PMO needs to continue to review purchase card convenience check data at least quarterly to identify potentially inappropriately written convenience checks such as those written to individuals, businesses that accept charge cards, or potentially split into multiple checks to avoid the \$2,500 limit. The PMO should require agency program coordinators to research the transactions, and to take appropriate actions to correct improper uses of the checks. Additionally, the PMO should follow up with agency program coordinators to ensure appropriate corrective actions are performed.

## **Management Comments on the Finding and Audit Response**

The Uniformed Services University of the Health Sciences and the Defense Commissary Agency commented on the Finding results of the draft report. The

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complete text of those comments is in the Management Comments section of this report. We provided detailed responses to those comments below.

**Uniformed Services University of the Health Sciences Comments on the Finding.** The Interim President, Uniformed Services University of the Health Sciences concurred with the finding regarding four checks written as an exchange for cash. However, the Interim President provided documentation that the individual returned the \$599 in unspent funds to the U.S. Treasury and the U.S. Treasury disbursed the funds to the University's account. The Interim President requested the DoD Office of Inspector General change the wording on top of page 6 to reflect the credit. The Interim President also requested the DoD Office of Inspector General change the wording on page 9 to delete the phrase, "...plus \$599 lost to the Treasury." Additionally, the Interim President concurred with the finding on Page 7 regarding checks written to vendors who accepted the purchase card. The Interim President stated that the University has since discontinued the practice and altered contracting procedures to maximize appropriate use of the Government purchase card.

**Audit Response.** After reviewing the documentation provided by the University, we agree the funds were credited to the University's account. As a result, we changed the wording on pages 6 and 9 as requested. The University has taken appropriate action to discontinue the practice of using the convenience check as payment to vendors who accept the Government purchase card, and we added a sentence to page 7 to acknowledge the University initiative.

**Defense Commissary Agency Comments on the Finding.** The Acting Director, Defense Commissary Agency nonconcurred with potential monetary benefits stating that checks written against contracts cost the Department additional monies in check fees. The Acting Director stated that the same contracts paid by the Defense Finance and Accounting Service would have cost the Government approximately \$27 per payment, or \$6,804. The Acting Director stated the use of the convenience check saved the Government \$3,553 in payment processing fees from the Defense Finance and Accounting Service. The Acting Director stated they used convenience checks because the merchants refused to accept the credit card and refused to register in the Central Contractor Registration. The Acting Director stated that the services were essential for the continued operation of the commissary.

**Audit Response.** The audit report did not claim potential monetary benefits. The Defense Commissary Agency used the convenience check for payments against contracts that cost the Government an additional \$3,251 in checks fees. The Government incurs 1.7 percent of the convenience check amount each time a check is written, and the additional convenience check fees would not have been incurred if the Defense Commissary Agency used the purchase card or the Defense Finance and Accounting Service.

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## Recommendations, Management Comments, and Audit Response

**A. 1. We recommend the DoD Joint Purchase Card Program Management Office:**

**a. Reissue guidance requiring appointment letters with an acknowledgement that the individual understands the responsibilities and liabilities.**

**Management Comments.** The Director, Defense Procurement and Acquisition Policy did not comment on this recommendation. We request the Director provide comments in response to the final report.

**b. Amend the purchase card task orders with the banks to state that convenience checks not written in accordance with the DoD Financial Management Regulation will not be honored.**

**Management Comments.** The Director nonconcurred with amending the bank purchase card task orders to state convenience checks will not be honored unless written in accordance with the DoD Financial Management Regulation. The Director stated the DoD Joint Purchase Card Program Management Office identified several operational issues that made enforcement of the proposed amendment difficult; the Director stated that they are currently working on identifying solutions. However, the Director stated that the DoD Joint Purchase Card Program Management Office issued a policy memorandum in September 2004 stating the banks would not honor any convenience check written greater than \$2,500. The Director added that since the issuance of the policy memorandum, the DoD Joint Purchase Card Program Management Office identified a decrease in the number of checks written greater than \$2,500, and believes the policy memorandum is serving as a deterrent until another solution is identified.

**Audit Response.** The comments are responsive and no additional comments are required.

**c. Reemphasize DoD guidance regarding the use of convenience checks.**

**Management Comments.** The Director concurred and stated the DoD Joint Purchase Card Program Management Office included a section on convenience checks in the DoD Purchase Card Guide issued August 4, 2004. The Director also stated the DoD Joint Purchase Card Program Management Office expanded and improved the convenience check module in the Defense Acquisition University online Continuous Learning Module entitled, "DoD Government Purchase Card Refresher Training."

**Audit Response.** The comments are responsive and no additional comments are required.

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**d. Require agency program coordinators to identify recurring payments during annual reviews, and take appropriate actions to prevent future recurring payments via convenience checks.**

**Management Comments.** The Director concurred and stated the DoD Joint Purchase Card Program Management Office developed shared reports to help Agency program coordinators and managers identify inappropriate convenience check transactions. The reports included, “Transactions Near \$2,500 Micro-Purchase Limit,” “Over Limit Convenience Check Transactions,” and “All Convenience Check Transactions.”

**Audit Response.** The comments are responsive and no additional comments are required.

**e. Identify potentially inappropriately written convenience checks such as those written to individuals, to businesses that accept charge cards, or potentially split into multiple checks to avoid the \$2,500 limit. Require agency program coordinators to research the transactions, and to take appropriate actions to correct improper uses of the checks. Follow up with agency program coordinators to ensure appropriate corrective actions are performed.**

**Management Comments.** The Director concurred and stated the DoD Joint Purchase Card Program Management Office developed shared reports as stated above and will ensure effective use by the agency program coordinator and managers. The Director also stated that the DoD Joint Purchase Card Program Management Office requires Agency program coordinators to conduct evaluations of all the checks written in excess of \$2,500 and initiate corrective action.

**Audit Response.** The comments are responsive and no additional comments are required.

**A. 2. We recommend the President of the Uniformed Services University of Health Sciences initiate an investigation of the exchange for cash transactions and take appropriate actions against the check writer and the individual receiving the checks.**

**Management Comments.** The Interim President, Uniformed Services University of the Health Sciences concurred and stated that a thorough investigation will be conducted to confirm the facts, determine if any items purchased were not for the direct benefit of the Government, and recommend changes and administrative or disciplinary actions as necessary.

**Audit Response.** The comments are responsive and no additional comments are required.

**A. 3. We recommend the Director, Defense Commissary Agency:**

**a. Ensure that convenience checks are issued in compliance with the DoD Financial Management Regulation.**

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**Management Comments.** The Acting Director, Defense Commissary Agency concurred and stated all convenience checks issued by the Defense Commissary Agency are in compliance with the DoD Financial Management Regulation. After a review by the Defense Commissary Agency program coordinator in July 2003, the Acting Director stated the Defense Commissary Agency developed a Concept of Operations for the Convenience Check Program. The Acting Director stated the Concept of Operations addresses how the Defense Commissary Agency will utilize the convenience check program from a broad concept, and specific procedures, processes, and prohibitions. The Acting Director stated the Defense Commissary Agency implemented the Concept of Operations fully by April 2004. The Acting Director stated the Defense Commissary Agency prohibits check writers from making payments in excess of \$2,500, splitting payments, and using checks as a payment method for contracts. The Acting Director stated the Defense Commissary Agency gave the check writers a copy of the DoD Financial Management Regulation, volume 5, chapter 2, and required them to read the section related to Convenience Checks.

**Audit Response.** The comments are responsive and no additional comments are required.

**b. Ensure that contracts are issued when necessary; specify the payment method in the contracts as either DFAS or the purchase card; and ensure that the payment method indicated in the contract is used.**

**Management Comments.** The Acting Director concurred that contracts shall be issued only when necessary, all contracts shall specify the method of payment, and the Defense Commissary Agency shall use the method stated in the contract. The Contracting Division Chief was advised to modify existing contracts to change the payment office to DFAS to eliminate the use of checks for payment of requirements exceeding \$2,500 annually. The Acting Director stated this was accomplished for most requirements by the end of April 2004. However, the Acting Director stated that the Defense Commissary Agency has two remaining contracts for service, one that expires July 31, 2005, and one that expires September 30, 2005; the Defense Commissary Agency will have no other contracts where the convenience check is used after the two contracts expire. The Acting Director stated the use of a contract document requiring payment by check has been terminated as a standard practice as of April 2004 in accordance with the Defense Commissary Agency Concept of Operations.

**Audit Response.** The Defense Commissary Agency is taking the appropriate actions to eliminate the use of the convenience check as a payment method against contracts. Therefore, the comments provided are responsive and no additional comments are required.

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## Appendix A. Scope and Methodology

We reviewed the use of convenience checks under the DoD Purchase Card Program. Using data mining techniques, we reviewed 64,513 convenience check transactions that occurred from October 1, 2002, through May 29, 2003, totaling about \$33.9 million. We mined the data for checks written over the established limit of \$2,500, recurring payments, and vendors known to accept charge cards.

We focused on FY 2003 convenience check documentation available at the time of our visits associated with 23 check writers at the following DoD activities:

- U.S. Army Tank-Automotive and Armaments Command;
- U. S. Army Tank and Automotive Research, Development, and Engineering Center;
- Army Great Lakes Recruiting Battalion;
- the 8<sup>th</sup> Marine Corps Recruiting District;
- the Marine Recruiting Center-Lansing;
- the Marine Recruiting Center-San Antonio;
- the Air Force Band;
- the Defense Commissary Agency, and
- the Uniformed Services University of the Health Sciences.

See Appendix B for the scope of review at each location. For the periods reviewed, check writers from the 9 activities issued 3,522 convenience checks, totaling approximately \$1.7 million.

We also reviewed additional convenience check transactions and questionable items that were processed in FY 2002 and discovered or brought to our attention.

We reviewed applicable convenience check policies and regulations. We interviewed personnel from the DoD Joint Purchase Card Program office. We discussed the processes for purchasing supplies and services using convenience checks with agency program coordinators, approving officials, and convenience check account holders.

We reviewed convenience check statements, carbon copies of checks, check transaction logs, and other source documents, such as purchase requests, invoices, and receiving reports. We performed this audit from May 2003 through December 2004 in accordance with generally accepted government auditing standards.

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**Use of Computer-Processed Data.** To achieve the objective, we relied on computer-processed data provided to the Defense Manpower Data Center from U.S. Bank and Citibank. Although we did not perform a formal reliability assessment of the computer-processed data, we did compare check writers' monthly convenience check statements to the computer-processed data. We did not find errors that would preclude us from using the data to meet the audit objectives or that would change the conclusions in this report.

**Use of Technical Assistance.** We received technical assistance from our Data Mining Division. The Data Mining Division obtained data from the Defense Manpower Data Center to include cardholder and transaction data from October 1, 2002, through May 29, 2003. The Data Mining Division then extracted the convenience check transactions and provided them to the audit staff.

**Government Accountability Office High-Risk Area.** The Government Accountability Office identified several high-risk areas in DoD. This report provides coverage to improve processes and controls to reduce contract risk.

## Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the management controls program over the use of the DoD convenience checks under the purchase card program at the U. S. Army Tank-Automotive and Armaments Command, the Air Force Band, the Defense Commissary Agency, and the Uniformed Services University of Health Sciences. Specifically, we reviewed the FY 2002 and FY 2003 annual statements of assurance and the management control review checklists for the purchase card program. We also reviewed management's self-evaluation applicable to those controls. We did not review the management control program at the U. S. Army Tank and Automotive Research, Development, and Engineering Center; the Army Great Lakes Recruiting Battalion; the 8<sup>th</sup> Marine Corps Recruiting District; the Marine Recruiting Center-Lansing; or the Marine Recruiting Center-San Antonio.

**Adequacy of Management Controls.** Although we identified management control weaknesses at each site we visited, we did not consider them material as defined by DoD Instruction 5010.40. The management controls over the use of convenience checks needed improvement. Check writers split purchases into multiple transactions to avoid exceeding the threshold of \$2,500; issued checks on a recurring basis instead of using alternative purchasing methods; issued checks to merchants that accepted charge cards; issued checks as a payment vehicle against a contract; and issued checks exceeding the threshold. In addition, controls were not in place to ensure that check writers reported IRS Form 1099-Miscellaneous Income data to DFAS. Recommendation A.1., if implemented, should correct the identified weaknesses.

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**Adequacy of Management’s Self-Evaluation.** The U. S. Tank-Automotive and Armaments Command, the Air Force Band, the Defense Commissary Agency, and the Uniformed Services University of Health Sciences performed management self-evaluations. In their evaluations, managing officials did not identify the specific management control weaknesses identified by our review.

## **Prior Coverage**

Between FY 1996 and FY 2005, over 400 audit reports identified a wide range of implementation problems in the DoD purchase card program.

## **Government Accountability Office**

The Government Accountability Office (GAO) issued 13 reports and testimonies relating to the DoD purchase card program. The most recent are GAO Testimony No. GAO-04-717T, “Purchase Cards: Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars,” April 28, 2004; GAO Report No. GAO-04-430, “Contract Management: Agencies Can Achieve Significant Savings on Purchase Card Buys,” March 12, 2004; and GAO Report No. GAO-04-156, “Purchase Cards: Steps Taken to Improve DoD Program Management, but Actions Needed to Address Misuse,” December 2, 2003. GAO reports can be accessed on the Internet at <http://www.gao.gov/>.

## **DoD Audit Organizations**

The DoD Inspector General and audit organizations in the Military Departments and the Defense agencies issued more than 400 audit reports on purchase cards between FYs 1996 and 2005. DoD IG Report No. D-2002-0029, “Summary of DoD Purchase Card Program Audit Coverage,” December 27, 2001, identified systemic issues with the program.

DoD IG Report No. D-2002-075, “Controls Over the DoD Purchase Card Program,” March 29, 2002, identified specific risk factors that still existed in FY 2001 that required more proactive oversight. DoD IG Report No. D-2003-109, “Summary Report on the Joint Review of Selected DoD Purchase Card Transactions,” June 27, 2003, identified 182 cardholders through data mining who potentially used their cards inappropriately or fraudulently.

DoD IG Report No. D-2004-002, “Selected Purchase Card Transactions at Washington Headquarters Services and Civilian Personnel Management Service,” October 16, 2003, and DoD IG Report No. D-2004-016, “Purchase Card Use at the Space and Naval Warfare Systems Command, Information Technology Center, New Orleans, Louisiana,” November 14, 2003, addressed controls over purchase card use that were not properly implemented or were ignored by senior managers.

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DoD IG reports can be accessed on the Internet at <http://dodig.osd.mil/audit/reports>. The Military Departments and other Defense organizations' reports can be viewed from the DoD Web site at <http://www.defenselink.mil/>.

## Appendix B. Scope of Review by Location

| Activity   | Check Writer | Period of Review                   | Number of Checks Reviewed | Dollar Value of Checks Reviewed |
|--|--------------|------------------------------------|---------------------------|---------------------------------|
| U. S. Army Tank-Automotive and Armaments Command                             | 1            | October 2, 2002-February 19, 2003  | 19                        | \$8,955                         |
|  | 2            | January 30, 2002-August 25, 2003   | 53                        | 35,523                          |
|  | 3            | February 18, 2003-July 31, 2003    | 17                        | 7,341                           |
|  | 4            | March 24, 2003-December 19, 2003   | 24                        | 30,071                          |
| U. S. Army Tank and Automotive Research, Development, and Engineering Center | 1            | October 1, 2002-September 30, 2003 | 230                       | 265,318                         |
| Army Great Lakes Recruiting Battalion  | 1            | October 25, 2002-August 18, 2003   | 79                        | 19,545                          |
|  | 2            | June 1, 2003-September 30, 2003    | 30                        | 19,308                          |
| 8 <sup>th</sup> Marine Corps Recruiting District                             | 1            | August 27, 2002-May 20, 2003       | 18                        | 37,587                          |
| Marine Recruiting Center-Lansing   | 1            | October 18, 2002-July 28, 2003     | 69                        | 39,403                          |
| Marine Recruiting Center-San Antonio   | 1            | October 3, 2002-June 4, 2003       | 32                        | 15,136                          |
| Air Force Band   | 1            | October 1, 2002-September 30, 2003 | 120                       | 114,722                         |
|  | 2            | October 1, 2002-September 30, 2003 | 190                       | 152,747                         |

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| <b>Activity</b>                                  | <b>Check Writer</b> | <b>Period of Review</b>            | <b>Number of Checks Reviewed</b> | <b>Dollar Value of Checks Reviewed</b> |
|--|---------------------|------------------------------------|----------------------------------|--|
| Defense Commissary Agency                        | 1                   | October 1, 2002-September 30, 2003 | 135                              | 131,487                                |
|  | 2                   | October 1, 2002-July 31, 2003      | 50                               | 24,030                                 |
|  | 3                   | October 1, 2002-November 5, 2003   | 2                                | 1,153                                  |
|  | 4                   | October 1, 2002-September 30, 2003 | 2                                | 3,608                                  |
|  | 5                   | October 23, 2002-July 2, 2003      | 17                               | 12,426                                 |
|  | 6                   | November 27, 2002-June 13, 2003    | 6                                | 4,895                                  |
|  | 7                   | March 13, 2003-July 25, 2003       | 3                                | 3,203                                  |
|  | 8                   | May 15, 2003-September 26, 2003    | 48                               | 20,087                                 |
| Uniformed Services University of Health Sciences | 1                   | September 2002-May 2003            | 1,596                            | 380,058                                |
|  | 2                   | October 1, 2002-August 5, 2003     | 457                              | 241,744                                |
|  | 3                   | October 1, 2002-September 11, 2003 | 325                              | 157,737                                |
| <b>Total</b>                                     | <b>23</b>           |                                    | <b>3,522</b>                     | <b>\$1,726,083</b>                     |

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## Appendix C. List of Activities Visited and Problems Found

| Activity   | Checks Issued Over \$2,500 | Checks Split to Avoid Exceeding \$2,500 Limit | Checks Issued on a Recurring Basis | Checks Issued As Payment Vehicles Against Contracts | Checks Issued to Merchants Accepting Purchase Card | Not Reporting IRS Form 1099-Miscellaneous Income Information |
|--|----------------------------|---|------------------------------------|---|--|--|
| U.S. Army Tank-Automotive and Armaments Command                              | X                          |   | X                                  |   |  |  |
| U. S. Army Tank and Automotive Research, Development, and Engineering Center |                            |   | X                                  |   |  | X  |
| Army Great Lakes Recruiting Battalion  |                            |   |                                    |   | X  | X  |
| 8 <sup>th</sup> Marine Corps Recruiting District                             | X                          | X   |                                    |   | X  | X  |
| Marine Recruiting Center-Lansing   |                            | X   | X                                  |   | X  | X  |
| Marine Recruiting Center-San Antonio   |                            |   |                                    |   | X  | X  |
| Air Force Band   |                            | X   | X                                  |   | X  | X  |
| Defense Commissary Agency  | X                          | X   | X                                  | X   |  |  |
| Uniformed Services University of Health Sciences                             |                            | X   | X                                  |   | X  | X  |

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Defense Procurement and Acquisition Policy  
Director, Joint Purchase Card Program Management Office  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Combatant Command**

Inspector General, U.S. Joint Forces Command

### **Other Defense Organizations**

Director, Defense Commissary Agency  
President, Uniformed Services, University of Health Sciences

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Homeland Security and Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform



# Under Secretary of Defense for Acquisition, Logistics, and Technology Comments



ACQUISITION  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

MAR 10 2005

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,  
OFFICE OF THE INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

*for* MAR 17 2005

SUBJECT: Draft DoDIG Report D2003CK-0126 "DoD Purchase Card  
Convenience Checks" February 2, 2005

This is in response to your February 2, 2005 memorandum requesting  
comments on the subject draft report.

We concur with the recommendations in the draft report. Over the past  
several years we have taken significant steps to improve internal controls relative  
to the use of convenience checks. In addition, during our recent reviews of the use  
convenience checks we identified many of the same problems highlighted in your  
report and have already taken actions to prevent their reoccurrence. Our detailed  
response to the recommendations is included as an enclosure to this report.

My point of contact for this matter is Ms. Susan Quinlan, SFCA-PC,  
703-681-3410, [susan.quinlan@hqda.army.mil](mailto:susan.quinlan@hqda.army.mil).

*for Vincent J. Lee*  
Deidre A. Lee  
Director, Defense Procurement  
and Acquisition Policy

Enclosure:  
As stated



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**DRAFT DODIG REPORT D2003CK-0126**  
**“DOD PURCHASE CARD CONVENIENCE CHECKS”**

**COMMENTS TO THE RECOMMENDATIONS**

**Recommendation A.1. We recommend that the DoD Joint Purchase Card Program Management Office:**

- a. Reissue guidance requiring appointment letters with an acknowledgement that the individual understands their responsibilities and liabilities.
- b. Amend the purchase card task orders with the banks to state that convenience checks not written in accordance with the DoD Financial Management Regulation will not be honored.
- c. Reemphasize DoD Guidance regarding the use of convenience checks.
- d. Require agency program coordinators to identify recurring payments during annual reviews, and take appropriate actions to prevent future recurring payments via convenience checks.
- e. Identify potentially inappropriately written convenience checks such as those written to individuals, to businesses that accept charge cards, or potentially split into multiple checks to avoid the \$2,500 limit. Require agency program coordinators to research the transactions, and to take appropriate actions to correct improper uses of the checks. Follow up with agency program coordinators to ensure appropriate corrective actions are performed.

**DPAP Response: Concur in Principle.**

Over the past several years, we have taken significant steps to improve internal controls relative to the Department’s Purchase Card program including controls relative to convenience checks. In our reviews of convenience checks, we identified many of the same problems highlighted in your report and, as recognized in your report, have already taken actions to prevent their reoccurrence including the following:

- As stated in your report, semi-annually, we have been receiving a list from the bank of all checks written in excess of \$2,500. We require that the Level 2s conduct an evaluation of all of the checks on this list and initiate corrective action where the check writer violated the DoD FMR limitation.

- 
- We recently worked with one of the banks to develop shared reports for use by Agency Program Coordinators (APCs) and managers that should address the concerns identified in recommendations A.1.d and A.1.e above. Three of the shared reports developed include "Transactions Near \$2,500 Micro Purchase Limit," "Over Limit Convenience Check Transactions," and "All Convenience Check Transactions." Since the shared reports have been available to the APCs for use for approximately 6 months, the PMO plans to run the reports to ensure that they are being used effectively. In addition, the PMO is working with the other bank to develop similar reports.
  - As stated in your report, we issued a policy memorandum stating that the banks will not honor any convenience check written for an amount greater than \$2,500. In those cases where the DoD FMR allows checks to be written in amounts greater than \$2,500 (i.e., for contingency operations) we instructed the check writer to write multiple checks up to the \$10,000 DoD FMR limitation (see below).
  - We included a section on convenience checks in the DoD Purchase Card Guide issued in August 4, 2004.
  - We expanded and improved the convenience check module in the Defense Acquisition University online Continuous Learning Module entitled "DoD Government Purchase Card Refresher Training" ([http://clc.dau.mil/kc/no\\_login/portal.asp?strRedirect=LC\\_CIA](http://clc.dau.mil/kc/no_login/portal.asp?strRedirect=LC_CIA))

We concur that another policy memorandum should be issued that reiterates the current DoD FMR and Department policy on convenience checks including all of the issues identified above. At this point, however, we do not concur that the purchase card task orders with the banks should be amended to state that convenience checks not written in accordance with the DoD Financial Management Regulation will not be honored. Subsequent to the issuance of the above referenced policy memorandum, we identified several operational issues that make enforcement of this policy difficult. As a result, we are working on identifying other solutions to this problem. However, in the interim, we have found a decrease in the number of checks written greater than \$2,500, and believe that, as a minimum, the policy memorandum is serving as a deterrent until another solution is identified.



# Uniformed Services University of the Health Sciences Comments

Final Report  
Reference



UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES  
F. EDWARD HÉBERT SCHOOL OF MEDICINE  
4301 JONES BRIDGE ROAD  
BETHESDA, MARYLAND 20814-4799



15 February 2005

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL,  
OFFICE OF THE DEPUTY INSPECTOR GENERAL FOR  
AUDITING, CONTRACT MANAGEMENT

SUBJECT: Draft Report on DoD Purchase Card Convenience Checks  
(Project No. D2003CK-0126)

Thank you for the opportunity to review and provide comments on the subject draft report. The Uniformed Services University of the Health Sciences concurs with the findings and recommendations and offers the following comments specific to the University:

## 1. COMMENTS ON REPORT FINDINGS

a. The University concurs with the findings on page 5 regarding four checks written as an exchange for cash during Bushmaster, a large field exercise for military medical students conducted in Texas several times a year. It is clear that writing checks for cash has the potential for abuse and is not in compliance with the FMR. Our review of the disposition of the \$599 unspent balance confirms the funds were returned to USU and credited to University accounts (see attached). We request wording at the top of page 6 be changed to reflect this new information. For this same reason, we request wording on page 9 be changed to reflect check fees of \$41 only, and the phrase "...plus the \$599 lost to the Treasury..." be deleted.

b. The University concurs with the finding on page 7 regarding checks written to "...11 vendors that accepted the charge card." This practice has been discontinued and University contracting office procedures altered to make maximum and appropriate use of the Government Purchase Card.

## 2. COMMENTS ON REPORT RECOMMENDATION

a. The University concurs with recommendation A.2.

b. A thorough investigation will be conducted to confirm the facts, determine if any items purchased were not for the direct benefit of the government, and recommend changes and administrative or disciplinary actions, as warranted.

Thank you again for providing us with the opportunity to comment on the draft report. Mr. Norman Qualtrough is the POC for this matter and he may be reached at 301-295-3443, and at [nqualtrough@usuhs.mil](mailto:nqualtrough@usuhs.mil).

  
Larry W. Laughlin, M.D., Ph.D.  
Interim President

Attachment:  
As Stated

Printed on  Recycled Paper

\*  
Revised  
Page 6  
Revised  
Page 9  
Revised  
Page 7

\* Omitted because attached documentation contained Privacy Act information.



# Defense Commissary Agency Comments



REPLY TO  
ATTENTION OF:

**DEFENSE COMMISSARY AGENCY**  
HEADQUARTERS  
1300 E AVENUE  
FORT LEE, VIRGINIA 23801-1800

IR

**MAR 17 2005**

MEMORANDUM FOR DEPARTMENT OF DEFENSE, INSPECTOR GENERAL (ATTN: CM), 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-4704

SUBJECT: Audit Report on DoD Purchase Card Convenience Checks (Project No. D2003CK-0126)

Reference: DoDIG Draft Report, dtd February 2, 2005, SAB.

Attached is the DeCA reply to the subject report. If you have any questions, please contact Ms. Judy Taylor at (804) 734-8104.

A handwritten signature in black ink, appearing to read "Patrick B. Nixon", is located below the text.

Patrick B. Nixon  
Acting Director

Attachment:  
As stated

cc:  
Chairman, MOC

## DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Draft Audit Report on DoD Purchase Card Convenience Checks

Recommendations A. 1 and A. 2 were not addressed to DeCA.

**Recommendation A. 3.** We recommend, the Director, Defense Commissary Agency:

- a. Ensure that convenience checks are issued in compliance with the DoD Financial Management Regulation.

**Action Taken.** Concur. All convenience checks are being issued in compliance with the DoD Financial Management Regulation (FMR). As a result of a full review of the convenience check program in July 2003 by the Agency Program Coordinator (APC), a Concept of Operations for the Convenience Check Program was developed in September 2003, prior to the arrival of the DoDIG auditors. Parts of the Concept of Operations were implemented immediately, and the full document was implemented by April 2004. The Concept of Operations addresses specifically how DeCA is to utilize the convenience check program from a broad concept, as well as very specific procedures, processes, and prohibitions for use of the convenience checks. It specifically prohibits payments in excess of \$2,500, splitting payments, and using checks as a payment method for contracts unless the required EFT waiver is obtained. Additionally, in July 2003, a copy of the FMR, Chapter 2 of Volume 5, was provided to all check program participants and they were required to read the section related to convenience checks.

- b. Ensure that contracts are issued when necessary; specify the payment method in the contracts as either DFAS or the purchase card; and ensure that the payment method indicated in the contract is used.

**Action Taken.** Concur. Contracts shall be issued only when necessary. The Concept of Operations, referenced above, eliminates the use of contracts for requirements under \$2,500 and establishes specific procedures for fulfilling those requirements when a check is required as the method of payment. In addition, the Contracting Division Chief was advised to modify existing contracts to change the payment office to DFAS to eliminate the use of checks for payment of requirements exceeding \$2,500 annually. This was accomplished for most requirements by the end of April 2004. However, there are two remaining contracts for service, one with Premium Proteins that expires July 31 and one with Prince George Sewage that expires September 30. For now, these are needed to keep the commissary and DeCA offices open; but, when these contracts expire, DeCA will have no other contracts for which the convenience check is being used as a method of payment.

Concur. All contracts shall specify method of payment; however, we contend that DeCA has always indicated clearly on the contract whether the method of payment was DFAS or Purchase Card. No action was required since DeCA was already in compliance.

Concur. We contend, however, that DeCA has always used the payment method stated in the contract. The Convenience Check is part of the Purchase Card Program, and therefore was

*Atch*

clearly indicated as "Purchase Card" in the contract. In addition, a "Check Payment" stamp was used on the contract document to indicate the subpart of the Purchase Card Program that was being used for the requirement. Use of a contract document for requirements requiring payment by check has been terminated as a standard practice, effective April 27, 2004, in accordance with the DeCA Concept of Operations Modification and/or elimination of the contracts that were issued was phased in over time in order to accommodate work load requirements, emergency requirements, and to avoid prohibitive contract termination expenses far in excess of the 1.7 percent fee for checks.

**Potential Monetary Benefits.** Non-concur. Checks written as payments against contracts did not cost the Department additional monies in check fees. The draft report states that DeCA check writers wrote 252 checks as payments for contracted services, with associated check fees of \$3,251. The same contracts paid by the DFAS would have cost DeCA approximately \$27 per payment, or \$6,804. Use of the convenience checks saved the Agency \$3,553 in payment processing fees from DFAS. However, the cost savings to the Agency was not the motivation for utilizing the checks. The merchants involved refused to accept the credit card and refused to register in the Central Contractor Registration (CCR), and services were essential for continued operation of the commissary.

The following are DeCA's responses to the findings:

- Checks issued over \$2,500. Concur. DeCA had 2 checks written over \$2,500.00. The supervisor of the check writers was informed of the misuse of the checks. The check writers were verbally counseled. The check writers' accounts were suspended in July 2003 and permanently terminated in March 2004. Retraining was conducted with remaining check writers regarding the \$2,500 limit in July 2003. A complete audit of the accounts was conducted and a complete review of the Convenience Check Program was conducted, including recommendations in July 2003. Those recommendations resulted in the draft Check Concept of Operations referenced above in September 2003.
- Checks split to avoid exceeding \$2,500.00 limit. Concur. Check writers at DeCA did issue two checks for the same requirement totaling \$5,000.00, and we concur that this constitutes misuse of the checks. The Certifying Officer's supervisor specifically directed the actions resulting in this situation. The Division Chief was advised of the improper use of the convenience checks in October 2003. The Division Chief verbally counseled the supervisor, certifying officer, and cardholders in October 2003. The Agency Program Coordinator informed the Convenience Check Certifying Officers and the supervisor that the FMR provides a process to obtain approval to write a check over the \$2,500 limit from the DoD Comptroller. If the approval is not obtained or is denied the check cannot be written nor can multiple checks be written to avoid the limitation.
- Checks issued on a recurring basis. Concur with finding; non-concur that an action is required. Check writers do write checks on a recurring basis when the total annual requirement is less than \$2,500.00 when the merchant does not accept the Purchase Card. DeCA is prohibited from issuing contracts for requirements under the micro purchase threshold. In cases where the merchant will not accept the credit card, DeCA must utilize

the convenience check or operate without the required service. The requirements in question include basic biohazard services such as removal of fats and bones that may contain blood and blood born pathogens and provision of county water services to a DeCA building. If DeCA does not arrange for these services, the commissary operation will be closed for violating sanitation requirements, impacting delivery of the commissary benefit to thousands of active duty and retired military personnel and their dependents.

- Checks issued as payment vehicles against contracts. Concur. In September of 2003, the DeCA GPC APC drafted a Convenience Check Concept of Operations that discontinued this as a standard practice. Parts of the Concept of Operations were implemented immediately in September 2003, and with coordination and contracting office input, fully implemented in April 2004. The DeCA APC will continue to review, update, and improve the Checks Concept of Operations, as necessary changes are perceived through review and audit of convenience check accounts. Services under contract included fats and bones removal services, a biohazard service, and provision of water to one of DeCA's office buildings. Both services are essential to the continued operation of commissary stores. The merchants involved refused to accept the credit card and refused to register in CCR. Merchants not registered in CCR cannot be paid by DFAS. Other merchants were actively sought, and significant efforts were expended to persuade the merchants to accept the credit card; both efforts were unsuccessful on repeated occasions. When a service must be obtained in order to continue commissary operations, and the merchant refuses to register in CCR, refuses to use the GPC, and there are no other sources available, the only viable option remaining is use of the Purchase Card Sub-Program, the Convenience Check. See above for impact on delivery of the commissary benefit to our military personnel and their dependents. Requirements for these services in the future will be fulfilled by completing the required EFT waiver prior to contract award.

#### **GENERAL COMMENTS**

The Defense Commissary Agency (DeCA) operates 272 commissary sales stores in the continental United States, Alaska, Hawaii, Guam, Okinawa, Japan, Korea, Iceland, Puerto Rico, Europe and the Middle East. DeCA currently utilizes two (2) checking accounts issued under the Convenience Check portion of the Government wide Purchase Card (GPC) Program to obtain goods and services in support of those 272 commissaries around the world when specific circumstances preclude use of the GPC or the Defense Finance and Accounting Service as the method of payment. The total contract dollars spent to support these 272 commissaries in FY 2003 was \$4,550,598,196.00; total GPC Program expenditure was \$69,626,658.00; the total dollars expended on convenience checks was \$203,642.00 or .29% of the total GPC Program and .00447% of total contract dollars.

In July of 2003, prior to the audit by the Department of Defense (DoD) Inspector General (IG) in October of 2003, the DeCA GPC Agency Program Coordinator (APC) conducted a full review of the DeCA Convenience Check Program (Attachment). The review of the program resulted in numerous recommendations and immediate actions that began to address many issues cited in the subject Report. In order to address more systemic issues identified by the APC

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review, a Convenience Check Concept of Operations was drafted in September 2003, prior to the audit by the DoD IG in October of 2003.

Upon the arrival of and recommendations from the DoD IG Audit team, additional actions were immediately taken. These actions and recommendations were incorporated with the findings of the APCs review of the program into a revision of the Convenience Check Concept of Operations (Checks Con Ops) in November 2003. Work continued to implement the program recommendations from both the APCs review and the DoD IG audit team. The DeCA Checks Con Ops is a dynamic document that is changed and updated as issues arise from additional reviews and analysis of use of checks and checks processing.

## **Team Members**

The Department of Defense Office of the Deputy Inspector General for Auditing, Contract Management, prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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